

Date Received: November 2, 1998

Docket No.: TV-971477

Company: Amends WAC 480-12, Relating to Household Goods Movers

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BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of)
) Docket No. TV-971477
 HOUSEHOLD GOODS RULEMAKING)
) COMMENTS OF
) EDWARD J. NIKULA (WASHINGTON
) TRUCKING ASSOCIATIONS)

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Statement of Edward J. Nikula on behalf of Washington Trucking

Associations in relation to the Household goods rulemaking.

I graduated from Elma High School in 1961. I attended Grays Harbor Jr. College in Aberdeen, Washington from 1961 to 1963 when I graduated with an AA (Associated Arts) degree. I then transferred to WSU (Washington State University) in the fall of 1963 and graduated in 1966 with a BA (Bachelor of Arts) degree in business administration with a major in accounting. After completing college I moved to Olympia and worked with a cable television company. In February, 1967 I accepted a position with the WUTC as a Utilities and Transportation Accounting Analysis I. I continued my position with the WUTC until August 31, 1992 when I retired from state service. When I retired from the WUTC, my position was Assistant Director, Water and Transportation. Since my retirement from the WUTC I have worked for Sanitary Service Company, Inc. as their CFO. Part of my duties involve rate filings with the WUTC. I also do some consulting work which also involves rate filings with the WUTC.

COMMENTS OF EDWARD J. NIKULA - 1

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1 Over my 25 year work history with the WUTC I was involved with rate
2 making activity which involved all types of regulated industries including
3 household goods carriers. One of the first rate making concepts that I learned at
4 the WUTC was that in setting rates the rates needed to be just, fair, reasonable
5 and sufficient. This concept is still in effect at the WUTC as was stated several
6 times recently by Bob Colbo of the WUTC at a solid waste seminar held on
7 October 26, 1998. Another concept that was used at the WUTC was fully
8 allocated costs. Bob Colbo also indicated at the same solid waste seminar that
9 the WUTC staff also still used this concept.

10 What do these two concepts mean? From a non-legal viewpoint just, fair,
11 reasonable and sufficient means that the rates which the WUTC approves must
12 balance both the needs of the consumers with the needs of the regulated
13 company. Because the regulated company has a type of monopoly, the WUTC
14 must protect the consumer from the company making excessive profits and at the
15 same time the WUTC must allow the company sufficient profits to stay in
16 business and attract capital at reasonable rates. Fully allocated costs means that
17 all costs of providing a service are allocated to that service. An easy way to look
18 at fully allocated costs is to ask yourself what does it cost to go to the grocery
19 store? Fully allocated costs would consider all direct and indirect costs
20 associated with that trip such as gas, depreciation, repairs, licenses, garage at
21 home, etc. All of these costs are part of the cost of operating the car.

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1 What do these two concepts have to do with the current rulemaking? The
2 WUTC staff is proposing banded rates (WAC 480-15-490)(2)(b). That band is 35%
3 below the current rates and 15% above the existing rates. Do all of the rates
4 within this band meet both the just, fair, reasonable and sufficient test and the
5 fully allocated costs test? I do not think that they do. In a memorandum from
6 Gene Eckhardt, Assistant Director, Water and Transportation dated August 6,
7 1998 to Pat Dutton, Assistant Director, Operations indicated at the bottom of page
8 2 that the Implicit Price Deflator for the Gross Domestic Product has increased
9 about 10 percent since 1993. (Copy attached as Exhibit A.) Therefore, the 15%
10 upper band is in effect only 5% above what could be expected if a fully allocated
11 cost study was done today.

12 In the past, from the time a consultant for the household goods moving
13 industry started on a rate case to the date the WUTC issued an order was usually
14 less than 12 months. This proposed rulemaking was started approximately 12
15 months ago. Therefore, a rate study could have been performed and the base
16 rate for the band could have been determined. If the fully allocated cost study
17 had found that the existing rates should have been increased by the 10% referred
18 to by Mr. Eckhardt then the proposed upper band would be only 5% (15% less the
19 10%) above a rate that would be just, fair, reasonable and sufficient and the lower
20 band would be 45% (35% plus the 10%) below the same amount.

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1 Mr. Eckhardt, in the same August 6, 1998 letter, discusses the lower limit of
2 the band. The memorandum indicates that the average discount on State of
3 Washington moves was a 25% discount. Mr. Eckhardt then increased the
4 discount from 25% to 35% based on new entrants providing lower service levels
5 and thus have lower cost functions. Who are these lower cost movers? Where
6 do they come from? What costs will they be able to eliminate? There is nothing
7 in that memorandum to support an additional 10% to the band, but an
8 assumption.

9 In a normal fully allocated cost study a sample group of carriers are used
10 and then all costs are put together and the rate that the WUTC uses is an average
11 rate. Each company has different costs of doing business. Some companies are
12 union and some non-union. Some companies have newer equipment (higher
13 depreciation) and some older equipment (little or no depreciation). The idea
14 behind a sample group of companies has always been to set rates based on an
15 average industry. One would expect because the rate is an average that about
16 one-half of the companies would have lower costs than the average and one-half
17 would have costs higher than the average. There is nothing in the proposed rule
18 that would only encourage lower costs companies to come into the household
19 goods moving market. I would expect a full range of companies to enter the
20 market, both high and low cost companies.

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001442

1 Therefore, my conclusions related to the banded rate proposal under
2 consideration are: (1) I recommend to the Commission that the lower band be
3 reduced from 35% to 15%. This is because if costs have increased 10% based on
4 the deflator, then the lower end of the band as proposed by WUTC staff would be
5 45% below the average rate that a new fully allocated cost study would likely
6 show. The 45% reduction in the lower band is derived by taking 35% for the band
7 from the existing rate and adding the 10% deflator. (2) I also recommend that the
8 Commission authorize a fully allocated cost study to determine the proper rate to
9 use for the base rate in setting the band so that permit holders can charge up to
10 15% above the average cost and can charge up to 15% less than the average
11 cost. It is my understanding that Washington Movers Conference is willing to
12 finance the needed fully allocated cost study.

13 Based on my work experience at WUTC, household moving permits have
14 been sold or transferred for value since federal deregulation of interstate
15 transportation of general commodities in 1980. This statement is accurate even
16 though WUTC, for rulemaking purposes, does not recognize investment value in
17 household moving permits.

18 Dated this _____ day of October, 1998.

19 _____
20 Edward J. Nikula
21 Washington Trucking Associations

COMMENTS OF EDWARD J. NIKULA - 5

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001443

1 Therefore, my conclusions related to the banded rate proposal under
2 consideration are: (1) I recommend to the Commission that the lower band be
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4 the deflator, then the lower end of the band as proposed by WUTC staff would be
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12 finance the needed fully allocated cost study.

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14 been sold or transferred for value since federal deregulation of interstate
15 transportation of general commodities in 1980. This statement is accurate even
16 though WUTC, for rulemaking purposes, does not recognize investment value in
17 household moving permits.

18 Dated this 30 day of October, 1998.

19 

20 Edward J. Nikula
21 Washington Trucking Associations

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